

VZCZCXRO0527
PP RUEHBC RUEHDE RUEHIHL RUEHKUK
DE RUEHKO #3464/01 3540818
ZNY CCCCC ZZH
P 190818Z DEC 08
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 9614
INFO RUCNRAQ/IRAQ COLLECTIVE
RHMCSUU/DEPT OF ENERGY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 003464

SIPDIS

E.O. 12958: DECL: 12/17/2018
TAGS: [ENRG](#) [EPET](#) [PREL](#) [IZ](#) [IR](#) [JA](#)
SUBJECT: JAPANESE OIL EXPLORATION COMPANY'S IRAQ STRATEGY
REF: TOKYO 3116

Classified By: Charge d'Affaires James Zumwalt for Reasons 1.4(b), (d)

11. (C) SUMMARY: Japanese oil exploration firm INPEX's General Manager for the Middle East Tetsuro Tochikawa finds Iraq's oil minister seems committed to a fair and transparent bidding process. Tochikawa told Emboffs several factors, however, including a lack of capacity to negotiate and manage contracts and the ability of foreign developers to demand greater concessions from the Oil Ministry as oil prices fall, will slow the minister's ambitious production timeline. Meanwhile, INPEX is pursuing direct negotiations with Oil Ministry officials on small and medium-sized fields. In contrast with other Japanese firms and GOJ officials, INPEX shows a relatively favorable impression of the security situation in Iraq, particularly in Basra. INPEX cites the lack of a consistent, predictable royalties scheme in the absence of a Hydrocarbon Law as an impediment to investment, but sees Iraq as a highly attractive long-term investment destination. END SUMMARY.

CULTIVATING CONTACTS IN IRAQ'S OIL SECTOR

12. (C) The INPEX Middle East Unit General Manager, Tetsuro Tochikawa, and Corporate Strategy and Planning Unit General Manager Hiroshi Ikeda told Econoffs the firm's Iraq operation is still in the information-gathering stage. Tochikawa said he had just returned from the three-day Energy Expo in Baghdad, which Japanese firms ENEOS, Mitsubishi, JGC, and the Japan Oil, Gas and Metals Exploration Corporation (a government corporation) also attended, but no American or European oil majors sent representatives. Tochikawa said the event exceeded his low expectations, but described it as "too bad" that Iraqi Oil Minister al-Shahristani left the venue shortly after his key-note speech.

13. (C) Ikeda said INPEX is taking a two-pronged approach to pursuing business opportunities in Iraq. The firm, he reported, is participating in the open tender process that began with the Oil Ministry's opening of first-round bidding in London in October. At the same time, the firm is talking directly with Iraqi officials and is working with an unspecified broker to cultivate contacts in the Iraqi government and develop its strategy, though Ikeda acknowledged it is difficult to assess the value of the broker's information or the strength of the broker's relationships with Iraqi officials.

14. (C) Tochikawa said al-Shahristani has made a clear commitment to open, transparent bidding, but various factors appear to be causing him to modify some of the terms and conditions demanded in the initial tender announcement. He is also entering into side meetings with single companies. In this regard Tochikawa pointed to the China National Petroleum Corporation's (CNPC) agreement as well as the GOI's apparent acceptance of export agreements negotiated by the

Kurdistan Regional Government as evidence the Oil Ministry is softening its position. In addition, Tochikawa said, the fall in oil prices is putting pressure on the GOI to try and conclude agreements sooner rather than later as it faces the prospect of oil revenues far below its initial estimates.

15. (C) INPEX also has an MOU with the Iraqi government (GOI) to survey fields and accept Iraqi trainees, although most of the more than 1000 Iraqis who have trained in Japan have only worked in downstream operations, e.g. refining and distribution operations. The GOI has said it will terminate these MOUs by the end of 2008 so as to ensure fairness as additional fields come up for tender. However, Tochikawa said the firm has not yet received word of the end of the training program or what a potential new MOU may include.

DECLINING OIL PRICE FAVORS CONCESSIONS

16. (C) Tochikawa also said lower oil prices may give international petroleum companies leverage to demand greater concessions from the GOI. For example, while the GOI has demanded technical service contracts (TSC), market factors and the Iraqis' desire to develop the fields quickly will encourage the GOI to conclude agreements that are nominally TSCs, but which essentially have the characteristics of production sharing agreements favored by industry along the lines of CNPC's contract. Note: Emboffs heard a similar assessment in mid-November meetings with Nippon Oil, another of Japan's four prequalified bid firms (ref).

TOKYO 00003464 002 OF 002

17. (C) As far as the timeline of bidding is concerned, Tochikawa was skeptical of the Oil Ministry's ability to meet Shahrastani's pledge to open a new round of bidding each quarter following an announcement of second-round bidding by the end of the year. Specifically, Tochikawa said the firm's broker had advised that the section within the Ministry charged with negotiating and issuing development licenses might not have the technical or staff capacity to meet Shahrastani's pledge. Tochikawa also anticipated slippage in the ministry's target of concluding agreements on first-round bids by early 2009.

SECURITY

18. (C) When asked about his perceptions of the security situation, Tochikawa noted the GOJ tends to base its security assessment only on the situation in Baghdad, but this has little relevance for international oil companies which would operate outside of the capital. Tochikawa noted sectarian violence is minimal in the predominately-Shiite south. He continued that the security situation in Southern Iraq is better than that of such areas in Northern Iraq as Kirkuk, where the Northern Oil Company owns the fields but the Kurds provide security, leading to what he thought could be a potentially volatile situation. Tochikawa suggested that the GOJ, specifically METI and the Ministry of Foreign Affairs, is excessively risk averse. It hesitates to promote investment in Iraq due to security concerns. In a separate meeting the day earlier, METI's Trade Policy desk officer for Iran and Iraq told Econoff the GOJ will likely delay a proposed January 2009 Japan Investment Forum because of Iraqi insistence that the event be held in Baghdad. The official also said METI is still considering whether to post a permanent commercial officer at Japan's Embassy in Baghdad.
END NOTE).

A CALL FOR A HYDROCARBON LAW

¶9. (C) Tochikawa also commented on the need to conclude a new Hydrocarbon Law to add predictability to investment in Iraq's oil sector. He pointed to a tax rate of 35% on oil revenues under the existing oil law, which he said seems to be arbitrarily applied and has no rational justification. He noted CNPC was able to negotiate a 15% rate, but there does not appear to be any consistency in the application of the existing set of laws.

A NOTE ON IRAN

¶10. (C) Tochikawa also supervises INPEX's stake in the Azadegan field in Iran, in which he said the firm has not invested since the company reduced its stake in the field from 75% to 10% in October 2006. Tochikawa said the Azadegan field currently produces 100,000 bpd, which is transported via a 100km pipeline to a pumping station before proceeding via a trunk line to Kharg Island for export. (Bio note: Tochikawa spent several years working on the field.)

IRAQ AND IRAN: GOOD LONG-TERM BETS

¶11. (C) When asked where he perceived the best long-term prospects for global oil development to be, Tochikawa replied without hesitation "Iran and Iraq", pointing to Iraq's 115 billion barrels of proven reserves and additional 240 billion barrels of potential reserves. Tochikawa said Iran will become a more important player in world oil markets once it resolves its nuclear issues.
ZUMWALT